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INTRODUCTION

The Office of Internal Audit performed an audit of Delta/Menominee County FIA for the period October 1, 2001 through September 30, 2002. The objective of our audit was to determine if internal controls in place at the local offices provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. Delta/Menominee County FIA had 56 full time equated positions (FTE's) at the time of our review. Delta/Menominee County FIA provided assistance to an average 4,019 recipients per month in FY 2001, with total assistance payments of \$4,878,510 for the fiscal year.

SCOPE

Our audit was performed in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at Delta/Menominee County FIA, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. Our audit included the following:

Cash Receipts	Cash Disbursements
General Ledger	Modified Accrual Basis Balance Sheet
Safe and Controlled Documents	State Emergency Relief (SER)
Employment Support Services	Client Processing
CIS/ASSIST	IRS Information Security
Payroll and Timekeeping	Procurement Card

EXECUTIVE SUMMARY

Based on our audit, we conclude that the Delta/Menominee County FIA internal controls are generally adequate to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. We did however, find instances of noncompliance with FIA policies and procedures, which are detailed below.

LOCAL OFFICE RESPONSE

The management of Delta/Menominee County FIA has reviewed all findings and recommendations included in this report. They indicated in a memorandum dated January 16, 2003 that they are in general agreement with the report.

COMMON RECOMMENDATIONS FOR IMPROVED INTERNAL CONTROLS

The following area is where we have identified a common control weakness at Delta/Menominee County FIA, and we are recommending a change in procedure to reduce the risk associated with the control weakness.

Payroll and Timekeeping

Payroll Record Retention

1. Delta/Menominee County FIA timekeepers maintained the certified copy of the Time and Attendance Summary Report (HR-332A). The Primary Internal Criteria for Local/District Office Operations recommends that someone other than the timekeeper retain the HR-332A so that changes made after the certifier signs the HR-332A could be detected.

WE RECOMMEND that Delta/Menominee County FIA have the certifier or someone other than the timekeeper retain the HR-332A.

DELTA COUNTY FIA

FINDINGS AND RECOMMENDATIONS

The following are areas where we found that Delta County FIA had a control weakness or was not operating in accordance with FIA policies and procedures that are described in manuals or instructional letters.

Cash Disbursements

Separation of Duties

2. Delta County FIA did not properly separate the cash disbursements duties. Our review disclosed that the same employee prepared and signed checks and also reconciled the Sign-O-Meter Log (FIA-4711). Accounting Manual Item 410.1 states that for internal control purposes, the FIA-4711 should be reconciled by someone independent of the automated disbursements function.

WE RECOMMEND Delta County FIA have an employee independent of the cash disbursement function reconcile the FIA-4711.

Cash Receipts

No findings in this area.

General Ledger

Cash Reserve File

3. Delta County FIA did not maintain a Cash Reserve File as required by Accounting Manual Item 402.6. Maintaining a file with documentation for the establishment of the Cash Reserve and transactions affecting its balance will ensure that the Cash Reserve is appropriately documented and accounted for.

WE RECOMMEND that Delta County FIA establish and maintain a Cash Reserve file as required by Accounting Manual 402.6.

Modified Accrual Basis Balance Sheet

No findings in this area.

Safe and Controlled Documents

Obsolete Controlled Documents

4. Delta County FIA had obsolete Purchase Order/Invoice forms (FIA-2083) and single county checks on hand. Accounting Manual Item 403 gives instructions for the

destruction of obsolete forms. Keeping obsolete forms on hand increases the risk of these forms being used inappropriately.

WE RECOMMEND that Delta County FIA destroy the obsolete forms in accordance with the instructions in Accounting Manual 403.

State Emergency Relief

No findings in this area.

Employment Support Services

No findings in this area.

Client Processing

No findings in this area.

CIS/ASSIST

No findings in this area.

IRS Information Security

No findings in this area.

Payroll and Timekeeping

Payroll Reconciliation

5. Delta County FIA did not reconcile the Time and Attendance Summary Report (HR-332A) with the Employee Time and Attendance Report (FIA-4299). Internal Control Criteria dated June 2002, page 57, states that the completed payroll is to be reconciled with the individual employee FIA-4299's.

WE RECOMMEND that Delta County FIA reconcile the Time and Attendance Summary Report (HR-332A) with the Individual Employee Time and Attendance Report (FIA-4299).

Procurement Card

No findings in this area.

MENOMINEE COUNTY FIA

FINDINGS AND RECOMMENDATIONS

The following are areas where we found that Menominee County FIA had a control weakness or was not operating in accordance with FIA policies and procedures that are described in manuals or instructional letters. The scope of our review at Menominee County FIA was limited to the areas listed.

Cash Receipts

Preparation of Mail Logs

6. Menominee County FIA did not use the Daily Mail Record of Cash Receipts (FIA-4729) for all negotiables received for deposit. Instead the County used the Record and Disposition of Checks/Warrants (FIA-61) to record all negotiables received in the mail. Accounting Manual Item 431 states that the FIA-4729 is to be used to record negotiables received for deposit.

WE RECOMMEND that Delta County FIA record all negotiables for deposit on the FIA-4729.

Mail Opening

7. Menominee County FIA had only one person opening the mail. Accounting Manual Item 430 requires that two people work together to open the mail. Having two people open the mail helps to ensure that cash and negotiable instruments received in the mail are not lost or stolen prior to being recorded at the local office.

WE RECOMMEND that Menominee County FIA have two people work together to open the mail.

Safe and Controlled Documents

Controlled Document Physical Inventory

8. Menominee County FIA did not properly control field receipts or EBT cards. Menominee County FIA was not using the Controlled Document Log (FIA-4070) or the Monthly Controlled Document Inventory and Reconciliation (FIA-4351) as required by Accounting Manual Item 403. Use of the Controlled Document Log and preparation of the Monthly Controlled Document Inventory and Reconciliation help to ensure that loss, theft or misuse of controlled documents would be detected on a timely basis.

WE RECOMMEND that Menominee County FIA use the Controlled Document Log and prepare the Monthly Controlled Document Inventory and Reconciliation for field receipts and EBT cards.

Employment Support Services

No findings in this area.

Client Processing

No findings in this area.

CIS/ASSIST

No findings in this area.

IRS Information Security

No findings in this area.

Payroll and Timekeeping

See Common Recommendation #1, page 2.

Procurement Card

No findings in this area.